



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

June 5, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Oakville, Iowa.

The City's receipts totaled \$1,014,059 for the year ended June 30, 2013, a 4.2% increase from the prior year. The receipts included \$60,420 in property tax, \$94,888 from charges for service, \$312,000 from operating grants, contributions and restricted interest, \$534,759 from capital grants, contributions and restricted interest, \$9,504 from local option sales tax, \$133 from unrestricted interest on investments and \$2,355 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$1,109,841, a 17.3% increase from the prior year, and included \$615,955 for capital projects, \$304,255 for community and economic development and \$52,690 for general government. Also, disbursements for business type activities totaled \$64,582.

The increase in receipts and disbursements is due primarily to federal grants received and disbursed in the current year to assist with disaster recovery from the floods of 2008.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1322-0561-B00F.pdf>.

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**CITY OF OAKVILLE**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013**

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**City of Oakville**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Benita Grooms	Mayor	Jan 2016
Daniel Crow	Mayor Pro Tem	Jan 2014
Teresa Jennings	Council Member	Jan 2014
Mary Lanz	Council Member	Jan 2014
Jim Jacks	Council Member	Jan 2016
Dale Whitaker	Council Member	Jan 2016
Linda Avery	City Clerk/Treasurer	Indefinite
William Matthews	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Oakville, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Oakville as of June 30, 2013, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Oakville's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2010 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements because we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11 and 26 through 28, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2014 on our consideration of the City of Oakville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Oakville's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 19, 2014

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Oakville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- The cash basis net position of the City's governmental activities decreased approximately \$107,000, due primarily to the City spending federal grant proceeds received in fiscal year 2012.
- The cash basis net position of the City's business type activities increased approximately \$11,400, due primarily to increased water and sewer rates.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides comparative information about the City's receipts and disbursements in the governmental funds and detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Community Disaster and Drainage Funds, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

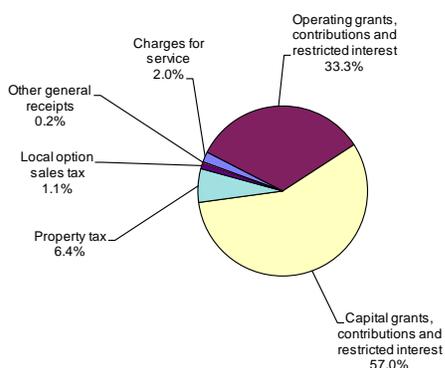
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

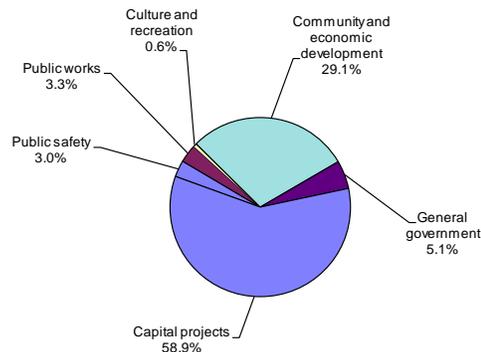
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$339,000 to approximately \$232,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
<b>Receipts:</b>		
<b>Program receipts:</b>		
Charges for service	\$ 19	15
Operating grants, contributions and restricted interest	312	661
Capital grants, contributions and restricted interest	535	163
<b>General receipts:</b>		
Property tax	60	55
Local option sales tax	10	12
Other general receipts	2	8
<b>Total receipts</b>	<b>938</b>	<b>914</b>
<b>Disbursements:</b>		
Public safety	31	26
Public works	35	26
Culture and recreation	6	5
Community and economic development	304	677
General government	53	58
Capital projects	616	92
<b>Total disbursements</b>	<b>1,045</b>	<b>884</b>
<b>Change in cash basis net position</b>	<b>(107)</b>	<b>30</b>
<b>Cash basis net position beginning of year</b>	<b>339</b>	<b>309</b>
<b>Cash basis net position end of year</b>	<b>\$ 232</b>	<b>339</b>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 2.6%, or approximately \$24,000. The total cost of all programs and services increased approximately \$161,000, or 18.2%. The changes were primarily the result of the timing of federal grant proceeds received and disbursed.

The cost of all governmental activities this year was approximately \$1,045,000 compared to approximately \$884,000 last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 14-15, the amount taxpayers ultimately financed for these activities was approximately \$180,000 because some of the cost was paid by those directly benefited from the programs (approximately \$19,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$847,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2013 from approximately \$839,000 to approximately \$866,000, principally due to receiving grant proceeds in fiscal year 2013 related to disaster recovery from the floods of 2008.

The decrease in cash basis net position is due primarily to the City spending federal grant proceeds in fiscal year 2013 which were received in fiscal year 2012.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 36	26
Sewer	40	33
Total receipts	76	59
Disbursements:		
Water	27	27
Sewer	37	36
Total disbursements	64	63
Change in cash basis net position	12	(4)
Cash basis net position beginning of year	60	64
Cash basis net position end of year	\$ 72	60

Total business type activities receipts for the fiscal year were approximately \$76,000 compared to approximately \$59,000 last year. The cash balance increased 20% from a year ago, increasing from approximately \$60,000 at June 30, 2012 to approximately \$72,000 at June 30, 2013.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Oakville completed the year, its governmental funds reported a combined fund balance of \$231,962, a decrease of \$107,188 from last year's total of \$339,150. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$20,000 from the prior year to \$57,477. The decrease was due to a gradual increase in disbursements.
- The Special Revenue, Road Use Tax Fund cash balance increased \$6,034 to \$132,083. This increase was due to road use tax collected not being entirely spent during the year.
- The Special Revenue, Community Disaster Fund cash balance decreased \$8,277 to \$15,829 during the fiscal year. The decrease was due to proceeds received in fiscal year 2012 which were disbursed in fiscal year 2013.
- The Capital Projects Fund cash balance decreased \$81,196 to \$13,064 during the fiscal year. The decrease was due to grant proceeds received in fiscal year 2012 which were disbursed in fiscal year 2013.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$7,044 to \$33,606.
- The Enterprise, Sewer Fund cash balance increased \$4,362 to \$38,266.

## **BUDGETARY HIGHLIGHTS**

The City's receipts were \$1,191,642 less than budgeted, primarily due to the City anticipating receiving more federal funds when preparing the budget than were actually received.

Total disbursements were \$1,081,778 less than budgeted. This was primarily due to the City anticipating more federal grant proceeds which would have been disbursed.

## **DEBT ADMINISTRATION**

On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City owed \$446,710 of principal on the loan as of July 1, 2010. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allowed the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Agreement established a deadline of June 30, 2011 for the City to complete these actions. The City did not complete the actions by June 30, 2011 and entered into a new Agreement on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions. The City worked in conjunction with Midwest Assistance Program and met the April 2, 2012 deadline.

For the current year, the City made a "good faith" payment of \$14,904 in June 2013 which the U.S. Department of Agriculture applied to interest owed.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City does not have any debt that applies against its constitutional debt limit of approximately \$511,000.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Oakville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. The City's fiscal year 2014 taxable property valuation increased approximately \$248,000, or 3.4%, over the fiscal year 2013 budget.

The fiscal year 2014 budget contains receipts totaling \$609,173 and disbursements totaling \$609,173. This budget is lower than the original fiscal year 2013 budget which included total disbursements of \$2,191,619. The fiscal year 2013 budget included \$2 million of state and federal aid programs the City anticipated receiving.

Under the budget, the General Fund property levy for fiscal year 2014 will remain at \$8.10 per \$1,000 of taxable property valuation. The debt service property tax levy also remains the same at \$3.00375 per \$1,000 of taxable property valuation for fiscal year 2014.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Avery, City Clerk, P.O. Box 116, Oakville, IA 52646.

**City of Oakville**

## **Basic Financial Statements**

City of Oakville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 30,927	-	-	-
Public works	35,337	15,898	16,972	-
Culture and recreation	6,095	1,057	-	-
Community and economic development	304,255	-	295,028	-
General government	52,690	1,992	-	-
Capital projects	615,955	-	-	534,759
Total governmental activities	1,045,259	18,947	312,000	534,759
Business type activities:				
Water	27,300	35,660	-	-
Sewer	37,282	40,281	-	-
Total business type activities	64,582	75,941	-	-
Total	\$ 1,109,841	94,888	312,000	534,759

**General Receipts:**

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

Miscellaneous

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

**Cash Basis Net Position**

Restricted:

Fire department

Streets

Debt service

Capital projects

Other purposes

Unrestricted

**Total cash basis net position**

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(30,927)	-	(30,927)
(2,467)	-	(2,467)
(5,038)	-	(5,038)
(9,227)	-	(9,227)
(50,698)	-	(50,698)
(81,196)	-	(81,196)
(179,553)	-	(179,553)
-	8,360	8,360
-	2,999	2,999
-	11,359	11,359
(179,553)	11,359	(168,194)
60,420	-	60,420
9,504	-	9,504
86	47	133
2,355	-	2,355
72,365	47	72,412
(107,188)	11,406	(95,782)
339,150	60,466	399,616
\$ 231,962	71,872	303,834
\$ 20,860	-	20,860
132,083	-	132,083
-	28,039	28,039
13,064	-	13,064
29,338	-	29,338
36,617	43,833	80,450
\$ 231,962	71,872	303,834

City of Oakville

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue			
	General	Road Use Tax	Community Disaster	Nonmajor Drainage
<b>Receipts:</b>				
Property tax	\$ 60,420	-	-	-
Other city tax	9,504	-	-	-
Licenses and permits	843	-	-	-
Use of money and property	2,868	-	-	11
Intergovernmental	-	13,952	295,028	3,009
Charges for service	14,173	-	-	-
Miscellaneous	3,504	-	-	-
Total receipts	91,312	13,952	295,028	3,020
<b>Disbursements:</b>				
Operating:				
Public safety	30,927	-	-	-
Public works	20,650	7,918	-	6,769
Culture and recreation	6,095	-	-	-
Community and economic development	950	-	303,305	-
General government	52,690	-	-	-
Capital projects	-	-	-	-
Total disbursements	111,312	7,918	303,305	6,769
Change in cash balances	(20,000)	6,034	(8,277)	(3,749)
Cash balances beginning of year	77,477	126,049	24,106	17,258
Cash balances end of year	\$ 57,477	132,083	15,829	13,509
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Fire department	\$ 20,860	-	-	-
Streets	-	132,083	-	-
Capital projects	-	-	-	-
Other purposes	-	-	15,829	13,509
Unassigned	36,617	-	-	-
Total cash basis fund balances	\$ 57,477	132,083	15,829	13,509

See notes to financial statements.

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Capital Projects	Total
-	60,420
-	9,504
-	843
-	2,879
534,759	846,748
-	14,173
-	3,504
<u>534,759</u>	<u>938,071</u>

-	30,927
-	35,337
-	6,095
-	304,255
-	52,690
615,955	615,955
<u>615,955</u>	<u>1,045,259</u>
(81,196)	(107,188)
94,260	339,150
<u>13,064</u>	<u>231,962</u>

-	20,860
-	132,083
13,064	13,064
-	29,338
-	36,617
<u>13,064</u>	<u>231,962</u>

**Exhibit C**

## City of Oakville

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 35,205	35,006	70,211
Miscellaneous	455	5,275	5,730
Total operating receipts	35,660	40,281	75,941
Operating disbursements:			
Business type activities	27,300	22,378	49,678
Excess of operating receipts over operating disbursements	8,360	17,903	26,263
Non-operating receipts (disbursements):			
Interest on investments	21	26	47
Debt service	-	(14,904)	(14,904)
Net non-operating receipts (disbursements)	21	(14,878)	(14,857)
Excess of receipts over disbursements	8,381	3,025	11,406
Other financing sources (uses):			
Operating transfers in	-	1,337	1,337
Operating transfers out	(1,337)	-	(1,337)
Total other financing sources (uses)	(1,337)	1,337	-
Change in cash balances	7,044	4,362	11,406
Cash balances beginning of year	26,562	33,904	60,466
Cash balances end of year	\$ 33,606	38,266	71,872
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	28,039	28,039
Unrestricted	33,606	10,227	43,833
Total cash basis fund balances	\$ 33,606	38,266	71,872

See notes to financial statements.

City of Oakville

Notes to Financial Statements

June 30, 2013

**(1) Summary of Significant Accounting Policies**

The City of Oakville is a political subdivision of the State of Iowa located in Louisa County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Oakville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Louisa County Assessor's Conference Board, Louisa County Emergency Management Commission and Louisa County Joint E911 Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories:

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Community Disaster Fund is used to account for state aid received for disaster recovery and its uses.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by auditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works, debt service, capital projects and business type activities functions.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

### **(3) Long-Term Debt**

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$522,000 of sewer revenue capital loan notes issued in August 1996. Proceeds from the notes provided financing for the establishment of a municipal sanitary sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2037. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. The total principal remaining to be paid on the notes is \$446,710 at June 30, 2013 and interest is accruing at \$55 per day. A final schedule of annual maturities is in the process of being established.

The resolution providing for the issuance of the notes includes the following provisions:

- a. The notes will only be redeemed from future earnings of the enterprise activity and the note holders hold a lien on future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note reserve account for the purpose of making the note principal and interest payments when due.
- c. An annual audit will be conducted at the end of each fiscal year.

The City had net sewer operating receipts of \$17,903 for the year ended June 30, 2013. Therefore, the earnings of the enterprise activity did not support the payment of principal and interest. Also, the City has not established the sewer revenue note reserve account in the amount required by the resolution.

On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City owed \$446,710 of principal on the loan as of July 1, 2010. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allowed the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Agreement established a deadline of June 30, 2011 for the City to complete these actions. Since the City did not complete these actions by June 30, 2011, a new Agreement was entered into on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions. The City worked in conjunction with Midwest Assistance Program and met the April 2, 2012 deadline. The U.S. Department of Agriculture is now considering a debt restructuring, but has yet to make a decision.

The City made "good faith" payments of \$10,530 in June 2011, \$13,770 in May 2012 and \$14,904 in June 2013 which the U.S. Department of Agriculture applied to the interest owed.

### **(4) Community Disaster Loan**

Community disaster loans are available through the Federal Emergency Management Agency to any local government or other eligible jurisdiction in a designated disaster area which has demonstrated a substantial tax loss and a need for financial assistance to perform its governmental functions. The City applied for and received a community disaster loan of up to \$51,588. During the year ended June 30, 2010, the City borrowed \$12,551 at 1.625% interest per annum. The outstanding balance of this loan was \$13,302 at June 3, 2013. When applicable, part or all of the loan may be canceled if it is determined the receipts of the applicant in the three fiscal years following the year of the disaster are insufficient to meet the operations budget because of disaster related receipt losses and unreimbursed disaster related disbursements. On June 3, 2013, the principal and interest of the loan were forgiven.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$3,281, \$2,664 and \$2,518, respectively, equal to the required contributions for each year.

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Sewer	Enterprise: Water	<u>\$ 1,337</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**City of Oakville**

## **Other Information**

City of Oakville

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 60,420	-	60,420
Other city tax	9,504	-	9,504
Licenses and permits	843	-	843
Use of money and property	2,879	47	2,926
Intergovernmental	846,748	-	846,748
Charges for service	14,173	70,211	84,384
Miscellaneous	3,504	5,730	9,234
Total receipts	<u>938,071</u>	<u>75,988</u>	<u>1,014,059</u>
Disbursements:			
Public safety	30,927	-	30,927
Public works	35,337	-	35,337
Culture and recreation	6,095	-	6,095
Community and economic development	304,255	-	304,255
General government	52,690	-	52,690
Debt service	-	14,904	14,904
Capital projects	615,955	-	615,955
Business type activities	-	49,678	49,678
Total disbursements	<u>1,045,259</u>	<u>64,582</u>	<u>1,109,841</u>
Excess (deficiency) of receipts over (under) disbursements	(107,188)	11,406	(95,782)
Other financing sources, net	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(107,188)</u>	<u>11,406</u>	<u>(95,782)</u>
Balances beginning of year	<u>339,150</u>	<u>60,466</u>	<u>399,616</u>
Balances end of year	<u>\$ 231,962</u>	<u>71,872</u>	<u>303,834</u>

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Total
		Variance
58,059	60,059	361
12,302	12,302	(2,798)
440	440	403
1,900	1,900	1,026
2,059,000	2,059,000	(1,212,252)
54,000	66,000	18,384
6,000	6,000	3,234
<u>2,191,701</u>	<u>2,205,701</u>	<u>(1,191,642)</u>
45,568	38,868	7,941
16,710	16,710	(18,627)
9,800	8,630	2,535
2,044,200	2,040,000	1,735,745
64,811	76,881	24,191
10,530	10,530	(4,374)
-	-	(615,955)
-	-	(49,678)
<u>2,191,619</u>	<u>2,191,619</u>	<u>1,081,778</u>
82	14,082	(109,864)
-	(66,000)	66,000
82	(51,918)	(43,864)
<u>399,283</u>	<u>399,283</u>	<u>333</u>
<u>399,365</u>	<u>347,365</u>	<u>(43,531)</u>

City of Oakville

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Although the budget was amended once during the year, the budget amendment did not change total budgeted disbursements. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works, debt service, capital projects and business type activities functions.

## **Supplementary Information**

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City of Oakville  
Schedule of Indebtedness  
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Revenue notes: Sewer capital loan	Aug 1, 1996	4.50%	\$ 522,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
446,710	-	-	446,710	14,904

**Schedule 2**

## City of Oakville

Schedule of Receipts by Source and Disbursement by Function -  
All Governmental Funds

For the Last Four Years

	2013	2012	2011	2010
<b>Receipts:</b>				
Property tax	\$ 60,420	55,401	54,436	68,604
Other city tax	9,504	11,681	30,302	18,631
Licenses and permits	843	408	30	25
Use of money and property	2,879	8,580	5,850	2,703
Intergovernmental	846,748	822,075	3,050,268	2,056,481
Charges for service	14,173	11,957	11,251	9,144
Miscellaneous	3,504	3,397	29,587	18,989
Total	<u>\$ 938,071</u>	<u>913,499</u>	<u>3,181,724</u>	<u>2,174,577</u>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 30,927	25,971	48,644	36,226
Public works	35,337	26,251	32,939	34,402
Culture and recreation	6,095	4,722	9,247	10,573
Community and economic development	304,255	677,167	2,892,891	271,919
General government	52,690	57,753	49,956	114,379
Capital projects	615,955	91,767	217,626	2,018,284
Total	<u>\$ 1,045,259</u>	<u>883,631</u>	<u>3,251,303</u>	<u>2,485,783</u>

See accompanying independent auditor's report.

City of Oakville  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2013

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRHB-228	\$ 295,028
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1763-DR-IA	552,788
Total			<u>\$ 847,816</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Oakville and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**City of Oakville**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Oakville, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Oakville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Oakville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Oakville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Oakville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 through II-I-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-J-13 through II-L-13 to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Oakville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The City of Oakville's Responses to the Findings

The City of Oakville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Oakville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Oakville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 19, 2014

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133**

**City of Oakville**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

Mary Mosiman, CPA  
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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Oakville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Oakville's major federal program for the year ended June 30, 2013. The City of Oakville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Oakville's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Oakville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Oakville's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Oakville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Oakville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Oakville's internal control over compliance with the types of requirements that could have a direct and

material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Oakville's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-13 through III-D-13 to be material weaknesses.

The City of Oakville's responses to the internal control over compliance findings identified in our audit are reported in the accompanying Schedule of Findings and Questioned Costs. The City of Oakville's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

May 19, 2014

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters).
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Oakville did not qualify as a low-risk auditee.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- (1) Accounting system – record keeping for the receipt cycle, the disbursement cycle and reporting.
- (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (4) Long-term debt – recording and reconciling.
- (5) Receipts – collecting, depositing, journalizing and posting.
- (6) Utility receipts – billing, collecting, depositing, posting and reconciling.
- (7) Disbursements – purchasing, check signing, recording and reconciling.
- (8) Payroll – preparing and distributing.
- (9) Transfers – preparing and approving.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including elected officials. Evidence of review of reconciliations should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – The City has implemented a reconciliation of the bank statements by a Council Member by initialing the statement. Upon your recommendation, in the future, he/she will also add the date of perusal. The monthly billings are checked for accuracy by two Council Members prior to being presented to the Council for approval. The Council Members are independent of the day-to-day financial operations of the City. We have always required two signatures on all checks written on or by the City. Checks and invoices are photocopied as record of transactions of FEMA and CDBG accounts. We appreciate the recommendations and will endeavor to institute them in the future.

Conclusion – Response acknowledged. However, the documentation reviewed by the Council Member does not constitute a bank reconciliation.

II-B-13 Bank Reconciliations – The City Clerk’s balances were not reconciled to the bank accounts and investments monthly. A listing of outstanding checks and deposits in transit was prepared each month, but the listing was not reviewed for propriety.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation – To improve financial accountability and control, the book and bank balances should be reconciled monthly and the reconciliations should be retained. Any variances should be investigated and resolved in a timely manner. In addition, the listing of outstanding checks and deposits in transit should be reviewed for propriety each month.

Response – Currently, Council Member Mary Lanz comes in as soon as we notify her bank reconciliations have been completed by the City Clerk. She checks the statements against the check registers for each fund and notates the reconciliation statement and the balance on the check register with her initials. Upon looking at our statements, we realize there were pages with either the initials or date missing. We will try to remind her to do both.

Conclusion – Response acknowledged. However, because the bank balance is not reconciled to the City Clerk's balance, the documentation reviewed by Mrs. Lanz does not constitute a bank reconciliation.

II-C-13 Accounting System – The City does not maintain a double entry general ledger system. Although the City maintains ledgers, the ledgers are not maintained for all accounts.

Recommendation – The City should develop and maintain a double entry general ledger system to ensure all financial transactions are properly recorded.

Response – We are looking to buy new financial software to encompass all facets of the City's financial needs.

Conclusion – Response accepted.

II-D-13 Delinquent Utilities – Delinquent utilities are forwarded to the County for collection. The City received \$5,606 in delinquent utilities from the County during fiscal year 2013 which was deposited into the General Fund. However, a portion of the funds received should have been deposited to the Enterprise, Water and Sewer Funds. This was corrected for reporting purposes.

Recommendation – The City should ensure receipts for the Enterprise, Water and Sewer Funds are recorded in the correct accounts.

Response – The City received the delinquent utilities via EFT into the General Fund. The Water and Sewer Funds have never paid any reimbursement toward audit costs. This has severely impacted our General Fund. In order to keep the General Fund in the black, the City would have had to take a penalty for withdrawal from a certificate of deposit. The City has recorded the receipts in the correct accounts in fiscal year 2014.

Conclusion – Response acknowledged. In the future, all receipts should be recorded in the correct accounts. If deemed appropriate, a portion of the audit costs may be paid from the Enterprise Funds.

II-E-13 Separately Maintained Accounts – The Special Revenue, Community Disaster Fund, Drainage Fund and Flood Recovery account are under the custody and control of the City at City Hall. However, they are not included in the City's ledgers.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose.”

The City should include the Special Revenue, Community Disaster Fund, Drainage Fund and the Flood Recovery account in the City’s ledgers.

Response – At this point in time, the final Community Disaster and Flood Recovery Projects are in close out. However, in the future, the City shall abide by the recommendation stated above.

Conclusion – Response accepted.

II-F-13 Local Option Sales Tax – City Resolution FY07-1 provides 50% of local option sales tax collections is to fund community capital improvements and 50% is to help fund the County Jail. Currently, local option sales tax collections are credited to the General Fund. In addition, local option sales tax disbursements are not monitored or separately identified to determine if the disbursements comply with City Resolution FY07-1.

Recommendation – The City should establish a Special Revenue Fund to account for local option sales tax receipts and disbursements and ensure disbursements comply with City Resolution FY07-1.

Response – City Resolution FY07-1 states 50% will go to the County Jail and 50% will go “for community Capital Improvements and expenditures” – thereby the funds were accredited to the General Fund. In the future, these funds will be separate and identifiable. The Clerk has always defined the LOST revenue from the State of Iowa and has tracked the half dedicated to the County Jail. She failed to understand the City share was designated for community capital improvements and disbursements or that left over funds should carry forth to the new fiscal year. The City will now earmark the funds for projects as designated and a running tally will go forth each year.

Conclusion – Response acknowledged. The City should establish a Special Revenue Fund to account for the LOST receipts and disbursements.

II-G-13 Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled. In addition, one month of sewer sales was not properly recorded in the Enterprise, Sewer Fund. This was corrected for reporting purposes.

The City was unable to locate the current refuse collection rates or a contract with the third party responsible for refuse collection. The City charges senior citizens \$13 instead of \$14 for refuse collection, but the reduced rate is not provided for by ordinance or contract. The third party did provide a statement saying these were the correct rates.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts. The City Council should review the reconciliation and monitor delinquent accounts. In addition, the City should maintain current City ordinances and consistently apply them.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Response – Our rates are set by our sanitary waste contractors, Hewitt Excavating. Our ordinance does not reflect a direct charge as it is a variable dictated by the contractor mandated by Louisa County. We are trying to save the City money by tracking the water and sewer through Microsoft Access. The City Clerk exported as much information into Microsoft Excel as possible for the auditors. The newly formed worksheets contained 12 sheets/months of billings along with totals of check and cash deposits for each month. It will cost over \$5,000.00 to get a prebuilt billing program which is not something that is feasible with the current customer base.

Conclusion – Response acknowledged. As recommended, a reconciliation should be performed between utility billings, collections and delinquent accounts. The City should ensure the contract with the vendor specifies the refuse collections rates and any special provisions. In addition, the contract should be reviewed and approved by the City Council on a periodic basis and a copy should be retained by the City.

II-H-13 Computer Systems – During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer systems were noted.

The City does not have written policies for:

- Requiring password changes every 60 to 90 days to maintain password privacy and confidentiality.
- Restricting access to computer systems through the use of unique user IDs.
- Requiring password length be at least 8 characters.
- Requiring computers have a log off function when not in use.
- Requiring a computer lockout function if passwords are incorrectly entered more than three times.
- Personal use of computer equipment.
- Use of the internet.

Also, the City does not have a policy for backup of computer files.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over its computer systems.

Response – A written policy is being formulated and will soon be in place to address the above concerns and to ensure a more secure system.

Conclusion – Response accepted.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

II-I-13 Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manuals for the City. In addition, we encourage obtaining or developing user manuals/help guides for the accounting records the City utilizes. These manuals and guides should provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Recommendation – Office procedures and accounting manuals should be developed for the City.

Response – The City Clerk has a manual in progress.

Conclusion – Response accepted.

II-J-13 Initial Listing of Receipts – An initial listing of receipts is maintained for the General, the Special Revenue, Road Use Tax and the Enterprise, Water and Sewer Funds. However, the initial listings are not reviewed by an independent person.

Recommendation – The initial listings of receipts should be reviewed by an independent person.

Response – We have taken the comment under advisement and will do our best to comply.

Conclusion – Response accepted.

II-K-13 Receipts – Although receipts were issued, they were not issued for all collections. In addition, account coding is not placed on receipts to properly document which account the receipt should be credited to.

Recommendation – Receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. In addition, account coding should be placed on each receipt.

Response – 80% of all collections are dropped in a drop box during non-working hours. At the cost of \$0.49 per receipt for delivery multiplied by over 90 customers, it is not cost effective when most of the cash receipts written go directly in the trash by our customers. We have less than 100 customers and the Clerk and the Mayor know each one by name so other than the purpose of information for future audits, account numbers mean nothing to our day-to-day operations as each collections usually has a billing slip with their name, account number and amount due. The Clerk then notates payment amount, form of payment and date paid on each customer slip. She records this information again on the monthly billing ledger in case of loss of slip.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Conclusion – Response acknowledged. However, all collections received in the mail should be logged in and totaled and a receipt should be prepared for the total amount. The proper account coding should also be documented at the time the receipt is prepared.

II-L-13 Transfers – Transfers between accounts and between funds are not balanced monthly, adequately explained and classified as transfers rather than receipts or disbursements.

Recommendation – The City should balance transfers monthly and provide an explanation for each transfer. Transfers should be properly recorded as transfers in/out rather than as receipts and disbursements.

Response – The Clerk has revised her system to more easily track the transfers between funds.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Pass-through Agency Number: FEMA-1763-DRIA**

**Federal Award Year: 2010**

**U.S. Department of Homeland Security**

**Passed through the Iowa Department of Public Defense – Iowa Homeland Security and Emergency Management Division**

III-A-13 Segregation of Duties – The City did not properly segregate duties involving (2013-001) cash, receipts, transfers and federal reporting. See item II-A-13.

III-B-13 Federal Reports – The Mayor prepares all required federal reports, including (2013-002) applications for reimbursement, project completion reports and certification reports. However, the reports are not independently reviewed or approved by the City Council.

Recommendation – The City should implement policies and procedures to ensure federal reports are independently reviewed and approved.

Response – All reports indicated above are prepared under the guidance of persons directly responsible for the engineering and completion of the project as certified by the Iowa Homeland Security and Emergency Management Division (IHSEMD). They are reviewed and reimbursement is applied for by the Recovery Division of IHSEMD. A project update has been given personally to the Council numerous times by Engineer Melanie Carlson and the work reports, upon receipt, have been presented to the Council for perusal. The work reports are available to the Council and public for viewing during open hours of City Hall. The monies received are not scheduled in a timely manner to accommodate the Council approval, as payment must be made within a time frame from receipt. Therefore, it is imperative payment be made upon receipt of monies.

Conclusion – Response acknowledged. The Council’s review and approval of the prepared reports should be documented in the City Council meeting minutes.

III-C-13 Bank Reconciliations – The book and bank balances were not reconciled (2013-003) monthly for federal accounts. See item II-B-13.

III-D-13 Separately Maintained Account – The custody of the Federal Emergency (2013-004) Management Agency (FEMA) account is under the control of the City at City Hall. However, ledgers are not maintained for these accounts. See item II-E-13.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-13 Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public works, debt service, capital projects and business type activities functions. Certain functions were exceeded because the City did not budget for business type activities and federal and state aid which were not included in the City’s ledgers. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – All receipts and disbursements, including federal and state aid, should be included in the budget. The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – All public money is now included in the budget. The federal and state programs were new to the City Clerk and the governing officers. We appreciate your input and will comply with the Iowa Code. The yearly payment to the USDA for our debt service is based upon the number of current users multiplied by \$13.50 multiplied by 12 months. It isn’t paid until June which makes it hard to know what the exact figure will be during the amendment process.

Conclusion – Response accepted.

IV-B-13 Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jim Jacks, Council Member, Owner of Jim's Body Shop	Parts, labor and computer	\$ 1,449
Anthony Newsom, City employee, Owner of Oakville Tire and Lube	Oil changes	250

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

IV-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-13 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

- IV-G-13 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City has written an investment policy in compliance with 12B.10B of the Code of Iowa. It was adopted by resolution at a regular Council meeting on March 5, 2014. The policy is on file at City Hall with copies being sent to two depositors and the Office of Auditor of State. The policy will be on file for issuance to future depositories.

Conclusion – Response accepted.

- IV-H-13 Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures...." The City's Annual Financial Report included receipts, disbursements and fund balances which do not materially agree with City records. The fund balances for the governmental funds were not reported separately.

Recommendation – The Annual Financial Report should be amended to correct the material errors and the amounts reported should be supported by the City's records. In addition, the fund balances should be reported separately.

Response – The City failed to recognize the FEMA projects needed to be broken down by category and the street and storm sewer projects needed to be expended under public works rather than community and economic development. The City will work on finding out what steps are necessary to amend the AFR.

Conclusion – Response accepted.

- IV-I-13 Sewer Revenue Capital Loan Notes Workout Agreement – On July 1, 2010, the City defaulted on the payment of \$28,925 of principal and interest on the sewer revenue capital loan notes issued August 1, 1996. The City entered into a Workout Agreement (Agreement) with the U.S. Department of Agriculture on February 8, 2011. The Agreement allowed the City to work with Midwest Assistance Program to research alternatives for making debt service payments proportionate to the number of remaining customers and establish a financial tracking system. The Workout Agreement established a deadline of June 30, 2011 for the City to complete these actions.

The City did not meet the objectives of the Agreement by June 30, 2011 and entered into a new Agreement on November 2, 2011. The new Agreement established a deadline of April 2, 2012 for the City to complete the listed actions. The City worked in conjunction with Midwest Assistance Program and met the April 2, 2012 deadline.

In fiscal years 2012 and 2013, the City also defaulted on the next two payments of \$28,925 each of principal and interest.

City of Oakville

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation – The City should continue to make good faith payments to ensure compliance with the established Agreement and determine a schedule for making debt service payments.

Response – The City continues to make a “good faith” payment yearly of \$13.50 multiplied by the number of users billed in June multiplied by twelve months. This was the agreement made with MAP and the USDA. As of this date, the USDA has not rejected this method of payment. The City is awaiting a USDA decision on the status of our loan.

Conclusion – Response accepted.

IV-J-13 Sewer Revenue Capital Loan Notes – The City has not established and made the required transfers to a sewer revenue note reserve account as required by the sewer revenue capital loan note resolution.

Recommendation – The City should review the sewer revenue capital loan note resolution and comply with its provisions. The City should consult legal counsel on the disposition of the net earnings violation.

Response – Since October 2013, the money market is now solely dedicated to USDA loan payments and the required 10% reserve.

Conclusion – Response acknowledged. The City should establish an Enterprise, Sewer Reserve Fund to account for this activity as required by the resolution.

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City of Oakville

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager  
Brian P. Schenkelberg, CPA, Senior Auditor II  
Benjamin P. James, Assistant Auditor  
Janell R. Wieland, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State